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TAGS: [ETRD](#) [ECON](#) [PREL](#) [PGOV](#) [TW](#)
SUBJECT: MORRIS CHANG'S REMARKS TO AIT DIR

Classified By: AIT DIRECTOR STEPHEN M. YOUNG for reasons 1.5 (b), (d)

11. (C) Summary: Chairman of Taiwan Semiconductor Manufacturing Company, Ltd. (TSMC) Morris Chang waxed philosophical the need to preserve Taiwan's middle class and democratic values, and was critical of President Chen's unnecessary provocations of the PRC during a March 31 courtesy call. Chang told AIT Director Young that most business people in Taiwan did not see any security threat from economic integration with China. End summary.

The Father of Taiwan's Semiconductor Industry

12. (SBU) AIT Director Stephen Young called on TSMC founder and Chairman Dr. Morris Chang to discuss the state of Taiwan's economy and to learn more about views of the local business community. TSMC (NYSE:TSM, LSE:TMSD) is the world's largest dedicated independent semiconductor foundry, with market capitalization of over US\$50 billion. Chang invented the "fab-less foundry" business model that now produces most of the world's integrated circuits, is the recipient of many awards for his contributions to the semiconductor industry, and is widely considered the father of Taiwan's semiconductor industry.

13. (SBU) Chang is a proud, loyal American who notes that, although born in China, he lived in the United States from age 18, when he entered Harvard University as a freshman, until age 54, when, after 25 years working for Texas Instruments (TI), he began living in Taiwan for the first time. Even after spending most of the last 21 years in Taiwan, he still refers to the United State as "home," and said he plans to spend more time there (New York and Hawaii) in the future. Dr. Chang stepped aside as TSMC CEO in July 2005, saying he believed that other executives in the company had proven themselves ready to assume larger responsibilities. TSMC independent board members are comprised of luminaries such as economist Lester Thurow, former British Telecom CEO Sir Peter Bonfield, and ACER founder Stan Shih.

¶4. (C) Dr. Chang said his company currently only does small-scale, older-technology production in China. TSMC's production in China only accounts for 2-3% of its total production. He added that production in China does not offer any costs savings, since semiconductors are a capital and technology intensive industry where labor costs are not a major factor.

¶5. (C) The reason TSMC would like to build more production facilities in China, Chang said, was to penetrate more effectively the Chinese domestic market. China discriminates against imported products, he said, especially in a strategic sector like semiconductors, but Chang doubted that WTO tools would be effective in dealing with this problem. He compared the situation that TSMC faces in China with the situation TI faced in Japan in the late 1960s and early 1970s. He noted that the semiconductor industry remains very profitable, with gross margins around 50% and net margins around 35-40%.

The President's Status Quo Ante

¶6. (C) Commenting on the frustration felt by Taiwan President Chen Shui-bian over the KMT and PRC refusal to work with him, Chang said the President had changed over the past six years. At first, in his meetings with Chang, Chen was open-minded, but over time, especially after the PRC Anti-Secession Law in early 1995, Chen had become more of an ideologue interested mainly in explaining his own point of view.

¶7. (C) President Chen viewed the trend of economic integration between Taiwan and China as a security threat, Chang said, but few business people in Taiwan agreed with that point of view. According to Chang, President Chen often claimed that the cross-Straits status quo was constantly changing, and that what the U.S. and China wanted was not the status quo, but the status quo ante circa 1992. Chang noted that the PRC was also changing, and, at present, was not pushing for rapid reunification. He said that the President should not be so eager for political negotiations. It would be better if politics could be put aside for 20 years, without raising provocative issues like changing the constitution or independence.

¶8. (C) Current cross-Straits tensions were unnecessary and put great pressure on Taiwan businesses, Chang observed. He added that the welfare of the business community should be, but seemed not to be, a major consideration in Chen's policies.

¶9. (C) Chang agreed with the Director's comment that neither Taiwan political camp had "covered itself in glory" on cross-Straits issues, and added that what Taiwan really needed was more emphasis on good governance. Chang noted how the Taiwan media was filled with stories of unpunished corruption, widening income gaps between rich and poor, growing scarcity of good jobs, rising crime rates and an unfair tax system. Chang suggested President Chen should concentrate on these issues of most concern to Taiwan's common people. Comparing himself to U.S. presidential candidate John Kerry, Chang said he benefited from the unfair tax system, but still believed it needed to be changed. In particular, he cited the absence of capital gains tax and the presence of tax exemptions for high tech investments as unjustified.

¶10. (C) Chang argued that as Taiwan did not have as broad and established a middle class as did the United States, the growing sense of disillusionment with politicians was a destabilizing trend. Chang said that, while he supported more liberalized trade with the PRC, he could accept the need for some restrictions. However, his friend Taiwan businessman Terry Kao of Honghai was already doing three-quarters of his production in Guangdong, employed over

200 thousand people there, and thus was far more eager for liberalized trade and investment rules on the part of the Taiwan government.

¶11. (C) Chang mentioned that he sometimes attended AEI retreats in Beavercreek, which were also attended by the U.S. Vice President and other government and industry leaders. He said he was usually the only Chinese-American at these events and so was often asked to give the "Chinese view" of issues. Chang also mentioned that he met regularly with people from the Brookings Institute and semiconductor industry associations.

¶12. (C) Comment: Dr. Chang is certainly one of the most influential Americans in Taiwan and has regular access to President Chen. His observation about Chen becoming more ideological in recent years is understandable in light of events, but still disturbing for cross-Straits prospects. We encouraged Chang to continue sharing his insights on such issues with both sides of the political divide. End comment.
YOUNG